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Adams, Leonard Palmer

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An Analysis of Recent Legislative Proposals
for Unemployment Insurance
in the United States

AN ABSTRACT OF A THESIS
PRESENTED TO THE FACULTY OF THE GRADUATE SCHOOL
OF CORNELL UNIVERSITY FOR THE DEGREE OF
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Box 410

by
LEONARD P. ADAMS

ITHACA, NEW YORK
1935

An Analysis of Recent Legislative Proposals for Unemployment Insurance in the United States

Pressure of events has brought about a decided change in the attitude of Americans toward the problem of unemployment. Until recently this problem was commonly accepted as an individual rather than a public responsibility. The depression wrought a decided change which manifested itself in the gradual development of State and Federal systems of relief. Simultaneously there has sprung up a strong and widespread public sentiment favoring the adoption of some type of unemployment insurance legislation. The object of this study was to analyze the plans proposed, making use of European experience and other related information.

Of the several European countries with unemployment insurance systems, the longest and most suggestive experience is furnished by Great Britain where the first compulsory law to be adopted anywhere was enacted in 1911. Including at first only certain specified industries, the coverage of the British law has been continually broadened so that nearly all workers are now protected by unemployment insurance. It is also significant for Americans that this method of providing relief for unemployment has withstood the test of many trying years and that it is now a commonly accepted part of British social legislation. The insurance law, although it now conforms with original principles, has been modified and reconsidered many times, furnishing students with a mass of information.

British experience clearly shows that unemployment is a highly complex problem the incidence and magnitude of which cannot be accurately predicted. Nevertheless a substantial part of the loss of workers' income due to unemployment can be met by an insurance scheme. Whether such a scheme can be kept a distinct entity and not confused with other methods of unemployment relief depends largely on the provisions made for taking care of those persons who either have no rights under the law or who have lost their rights to benefits. In the absence of a carefully planned public relief system in the United States, the impact of depression unemployment, just as it did in Britain, will undoubtedly force the responsible legislative body to use the insurance system as a relief device.

Advocates of an insurance plan which would differentiate the contribution rates required of employers point to British experience as proof of the justness of their argument. It is true that certain industries during the post-war period drew out of the insurance fund several times the amount that the employers and employees in them had contributed. This record did not convince the Royal Commission of the soundness or the practicability of "merit rating", partly because of the administra-

tive difficulties involved and partly because of the obvious difficulty which would be encountered if industries with poor records were made to carry the full cost of benefits for their workers.

In the early years of the movement toward unemployment insurance in the United States, the principles of the British system furnished the basis for the bills which were introduced in Congress and several State Legislatures. A new type of insurance plan, later known as the Wisconsin or reserves plan, made its first public appearance in 1921 in the form of a bill sponsored by Senator Huber of Wisconsin. The idea behind this plan, which is the basis of the present Wisconsin law, was that the purpose of unemployment insurance is primarily to encourage the prevention of unemployment and only incidentally to provide relief for the unemployed. The principal device proposed for effecting this result was the establishment of an automatic system of "merit rating" which made the payment of unemployment benefits to an employer's workers a direct cost on his business. Given a financial incentive to stabilize, it was assumed that each employer would be forced by competition to reduce unemployment in every possible way and that his liability for benefit payments would be an important factor, from a banker's point of view, in passing on an application for credit.

During the early years of the recent business depression many types of unemployment insurance plans were presented in bill form to State Legislatures. Among these the most popular were the Ohio plan which closely followed the existing British law; the Minnesota plan which was drawn up to protect the insurance fund against excessive withdrawals by seasonal workers and also to encourage stabilization by providing for industry reserves; the Socialist bill which provided generous benefits and an allowance for dependents, and the Wisconsin plan mentioned above. It is apparent from these proposals that unemployment insurance is conceived of as a device for providing, as a matter of right, a certain limited amount of protection against the loss of unemployment for a specified group of workers, in return for contributions from the insured workers, their employers and, in some cases, from the government. All of the above-mentioned types of legislation are compulsory and provide for administration by a State agency. In this respect, these insurance plans obviously differ from private insurance run on a profit basis. Unemployment insurance in other respects is comparable with certain types of private insurance which only partially satisfy insurance principles. Consequently there is room for debate as to the insurability of unemployment. This can be settled only by actual experience. It should be remembered, however, that compulsory unemployment insurance is a social device for providing relief to jobless workers and as such cannot be fairly tested by a rigid application of private, profit-making insurance criteria.

In the absence of an experience record by which the financial soundness of the several types of unemployment insurance plans could be tested, it is necessary to work out some sort of estimate of the amount of benefits which could be paid from a given tax on payrolls. Such estimates were attempted for each of the four above-mentioned types of plans on the basis of the available data for New York State manufacturing industries in the period 1922-1932. There is reason to believe that the experience of workers in these industries is somewhat typical of the

whole insurable group of workers, giving the results general significance. The basic method used in estimating unemployment was first developed by Hornell Hart and later used by Givens and Wolman and also by Paul H. Douglas. Detailed methods of calculating the cost of benefits had to be developed for each plan from the meagre information available.

The results of these hypothetical studies showed that, because of the lack of basic information, it is practically impossible to get results free from a considerable margin of error. In fact, this lack of information was a general handicap throughout the entire project. Conclusions drawn from such an analysis must, therefore, be considered at best only approximations.

The unemployment estimates showed that the average rate of unemployment among workers attached to manufacturing industries in New York State during the period 1922-1932 was about 15 per cent. The high point was reached in 1932 when there were on the average about 38 per cent of these workers without jobs. Data taken from the U. S. Census and special studies made in Syracuse and Buffalo agree closely with these estimates.

A comparison of the results obtained from applying each of the four selected plans (Ohio, Wisconsin, Minnesota and Socialist) to the same set of data show that under all systems (excepting under the Socialist plan which places no limit on the duration of benefits) a large percentage of the unemployed, especially during depression years, would have lost their rights to benefits. When to this group are added those unemployed workers outside the covered industries it is perfectly apparent that insurance must be supplemented by a well-planned system of public relief. The Socialist plan would clearly have been unworkable since, without an extremely high tax rate, the reserve funds would have been insufficient to pay benefits during years of heavy unemployment. The reserves accumulated under the other plans would have provided benefit payments during a part of the recent depression. Since the data did not permit a testing of the Wisconsin plan in terms of individual firms, it is possible to make only the broadest of statements concerning its operation. It is unlikely, however, that the plan would have given a general impetus to stabilization of employment by employers in view of the low average cost of the reserves provided in terms of value of product or value added by manufacture.

It is impossible to measure precisely certain of the broader economic implications of compulsory unemployment insurance financed largely by a payroll tax levied on employers. Obviously such a tax will tend to encourage the use of labor saving devices, making for either lower wages or more unemployment. Yet the exact incidence of such a tax will depend on particular economic circumstances and may, in some cases, effect a redistribution of the national income. On the other hand, the accumulation of reserves and their disbursement are both timed in such a way as to have a stabilizing effect on business, providing their investment is well managed.

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